

March 2, 2004

Docket No. R-1181

Jennifer J. Johnson

Secretary

Board of Governors of the Federal Reserve System

20th Street and Constitution Avenue, NW

Washington DC 20551

RE: Comments Regarding Revisions to the Regulations Implementing the CRA

Dear Federal Bank and Thrift Agencies Officials:

Summary : We oppose the proposed changes regarding streamlined exams and the anti-predatory lending standard because they threaten CRA's statutory purpose and our communities' ability to address the crisis in affordable housing. Full compliance with CRA regulations must occur everywhere lending and profit making activities take place in substantial proportion. CRA gives ordinary citizens the opportunity to have a voice regarding a bank's lending, investment and service components and is too vital to be gutted by harmful regulatory changes and neglect.

The Affordable Housing Coalition of San Diego County urges you to withdraw the proposed changes to the Community Reinvestment Act (CRA) regulations. CRA has been instrumental in increasing access to homeownership, developing multi-family housing, boosting economic development, and expanding small businesses in the nation's minority, immigrant, and low- and moderate-income communities. Low-income and people from communities of color have utilized CRA to abolish redlining and discrimination. CRA obligates banks and thrifts to serve all communities in which they are chartered and from which they take deposits.

The proposed changes include three major elements: 1) increase the asset threshold from \$250 million to \$500 million for banks to be eligible for a small bank exam; 2) establish a weak predatory lending compliance standard under CRA; and 3) expand data collection and reporting for small business lending and home lending. The beneficial impacts of the third proposal are overwhelmed by the damage imposed by the first two proposals.

Our Coalition does not agree with the federal banking agencies' rejection of a proposal which would have tied a bank's CRA obligations to its market share in a given area rather than only the location of its branches. In California, Countrywide Home Loans and JP Morgan Chase are two such entities that despite the high number of loans made in the state have no CRA obligations. The agencies also failed communities by continuing to allow banks to elect to include affiliates on CRA exams at their option. Financial institutions have the ability to manipulate their CRA exams by excluding affiliates not serving low- and moderate-income borrowers and excluding affiliates engaged in predatory lending. The game playing with affiliates will end only if the federal agencies require that all affiliates be included on exams.

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Small Bank Exams

Under the current CRA regulations, large banks with assets of at least \$250 million are rated by performance evaluations that scrutinize their level of lending, investing and services to low- and moderate-income communities. The proposed changes will eliminate the investment and service parts of the CRA exam for banks and thrifts with assets between \$250 and \$500 million. The proposed changes will also no longer reference affiliations with holding companies. It is expected that these proposed changes would create streamlined and cursory exams for 1,111 banks that account for more than \$387 billion in assets.

The elimination of the investment and service tests for more than 1,100 banks translates into considerably less access to banking services and capital for under-served communities

Predatory Lending

The proposed CRA changes contain an anti-predatory screen that will actually perpetuate abusive lending. The proposed standard states that loans based on the foreclosure value of the collateral, instead of the ability of the borrower to repay, can result in downgrades in CRA ratings. The asset-based standard creates a de-facto definition of predatory lending without taking into account other predatory tactics.

Any standard that does not address these well-known tactics will allow CRA exams to be used to cover up predatory lending practices. Rigorous fair lending audits and severe penalties on CRA exams for abusive lending are necessary in order to ensure that low-income borrowers are protected.

Enhanced Data Disclosure

The federal agencies propose that banks publicly report the specific census tracts of small businesses and small farms receiving loans in addition to the current items in the CRA small business data for each depository institution. This will improve the ability of the general public to determine if banks are serving traditionally neglected neighborhoods and communities. The regulators propose separately reporting purchases from loan originators on CRA exams and separately reporting high cost lending.

The positive aspects of the proposed data enhancements do not begin to make up for the significant harm caused by the first two proposals. Furthermore, the federal agencies are not utilizing the data enhancements in order to make CRA exams more rigorous. The agencies are requiring that the information regarding small business and small farm lending be contained in the Disclosure Statement but would not necessarily use the data to lower ratings on CRA exams. Data reporting on loan purchases, originations and high cost loans will not impact a CRA rating.

Thank you for your attention to this critical matter.

Sincerely,



Richard Lawrence, Chair

Affordable Housing Coalition of San Diego County

cc. Jim Bliesner
San Diego City-County Reinvestment Task Force